

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
COLUMBIA, SOUTH CAROLINA

January 21, 2009

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ALLOWABLE EX PARTE BRIEFING

REQUESTED BY DUKE ENERGY CAROLINAS - MANAGEMENT CHANGES, GOALS,
CHALLENGES, AND OBJECTIVES FOR 2009

**TRANSCRIPT OF
PROCEEDINGS**

VOLUME 1

BEFORE: Elizabeth B. 'Lib' FLEMING, *CHAIRMAN*, John E. "Butch" HOWARD, *VICE CHAIRMAN*; and COMMISSIONERS David A. WRIGHT, G. O'Neal HAMILTON, Swain E. WHITFIELD, Mignon L. CLYBURN, and Randy MITCHELL.

ADVISOR TO COMMISSION: Joseph Melchers, Esq.

STAFF: Jocelyn G. Boyd, Deputy Clerk; F. David Butler, Jr., Senior Counsel; James Spearman, Ph.D., Executive Assistant to Commissioners; Randall Dong, Esq., Legal Staff; Philip Riley, Tom Ellison, and Lynn Ballentine, Advisory Staff; Jo Elizabeth M. Wheat, CVR-CM-GNSC, Court Reporter; and Deborah Easterling, Hearing Room Assistant.

APPEARANCES:

CATHERINE HEIGEL, ESQUIRE, along with BRETT CARTER and ELLEN RUFF, PRESENTERS, representing DUKE ENERGY CAROLINAS

JEFFREY M. NELSON, ESQUIRE, representing OFFICE OF REGULATORY STAFF

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P R O C E E D I N G S

CHAIRMAN FLEMING: Please be seated. This ex parte briefing will now come to order. Well, good morning everyone.

MS. HEIGEL: Good morning, Madam Chairman.

CHAIRMAN FLEMING: Happy to have you here today. You are going to talk to us about some issues.

MS. HEIGEL: Yes, thank you, Madam Chair, Vice Chairman Howard, members of the Commission. My name is Catherine Heigel and I'm here on behalf of Duke Energy Carolinas, and we're very pleased to be here again before you in this format. We are here to talk about some recent management changes that have taken place with Duke Energy Carolinas, and I'm pleased to introduce Mr. Brett Carter, our new president of Duke Energy Carolinas, as well as to have Ms. Ruff --

CHAIRMAN FLEMING: Congratulations. Glad to have you here.

MS. HEIGEL: -- talk about her new role as president of the office of nuclear development. Also in attendance with us today, we do have some members of our staff with us, that I would like to point out. Ms. Carol Shrum is here; she's vice

1 president of our rates. Myron Caldwell, who is
2 senior vice president of rates and regulatory
3 accounting. Catherine Stempien is senior vice
4 president of franchised-electric-and-gas legal.
5 And Mr. Shawn Heath, who is vice president of our
6 newly created customer education and advocacy
7 group.

8 One of the reasons why we scheduled this
9 briefing was to continue the dialogue that we
10 started with you all in September on issues and
11 challenges that are facing our company. We thought
12 this was a good opportunity to discuss those in the
13 context of recent management changes and allow Mr.
14 Carter to talk to you about his goals and
15 objectives.

16 We may discuss some future filings that are
17 anticipated by the company. We will assure you
18 that we are not seeking any advance determination
19 by this Commission as to the merits of any of those
20 filings. We would note that we do have one open
21 docket before you, which is Docket 2007-358-E,
22 which is our energy efficiency plan. We will not
23 be discussing any of the issues that are subject to
24 disposition by the Commission in that docket here
25 today.

1 We have prepared a brief PowerPoint
2 presentation to share with you today. We encourage
3 your questions as we go through that presentation.
4 Ms. Ruff does not have slides for her portion of
5 it, but Mr. Carter does. And again, we welcome
6 your questions, we look forward to the dialogue,
7 and we do appreciate the opportunity to be here
8 today.

9 **CHAIRMAN FLEMING:** Thank you, Ms. Heigel. Ms.
10 Ruff --

11 **MS. RUFF:** Good morning.

12 **CHAIRMAN FLEMING:** -- we're very happy to have
13 you back with us.

14 **MS. RUFF:** Thank you, very much. And it's a
15 pleasure for me to be here this morning. And I was
16 reflecting, how many different roles I have sat in
17 the chair before this Commission as a junior
18 attorney, when I first started work at Duke, then
19 throughout either second chair -- or whatever one
20 might call it -- during the Commission hearings,
21 and then as a witness when I was president of Duke
22 Energy Carolinas, which was truly for me a great
23 honor, and always a great honor to be before this
24 Commission.

25 And so as I was reflecting on that, I thought,

1 "Well, 30 years later I am sort of where I started
2 with the company," because when I first joined it
3 30 years ago as an attorney in the legal
4 department, my primary role was in working on the
5 Catawba Nuclear Station sale to our municipals and
6 cooperatives. I did that for probably eight or so
7 years. We presented an offer before I came to
8 work, because I came to work on September 18, 1978.
9 We made an offer in 1976. We closed. We had the
10 first closing in '78, next closing in '80, and
11 then, with a series of proceedings before this
12 Commission, the last closing in 1984. Subsequent
13 to that, we litigated the contracts for at least
14 the next seven or eight years, and I've discovered
15 that is one of the ways that you truly learn about
16 contracts and about arrangements and joint
17 ownership. It was a terrific experience for me.

18 And so last year, Jim Rogers and I, we were
19 talking about nuclear and where we were going with
20 nuclear. And as you all know, we have now in our
21 structure, with the five states, sort of what we
22 like to call a matrix organization where we go
23 across five states in a number of different
24 functions, both with regard to our poles and wires,
25 with regard to our generation, although nuclear

1 generation and its departments are solely here in
2 Carolinas. But we do have, in terms of project
3 management, and across -- we had a number of our
4 functions, both in finance and in nuclear, in the
5 nuclear operating department and in the development
6 and negotiations of the EPC contract, we had them
7 in many different departments across the company.
8 And Jim felt there was a great need for us to
9 consolidate that, so there were two purposes for my
10 new position that he asked me to accept.

11 The first was to integrate those functions
12 within the company, so we would be sure to move
13 forward with the greatest possible speed. It's not
14 that the great work had not been done, but to
15 ensure that we were integrating those functions
16 within the company. So although I will have a very
17 small staff directly reporting to me -- and I hope
18 in the future you will get to meet these three
19 individuals -- I have what I like to call a virtual
20 team, which is all across the company from finance,
21 from nuclear, from project management. And I would
22 be remiss if I didn't say to you how many folks
23 approached me and said this was a project that they
24 were all very interested in advancing.

25 So a primary goal is the integration, and also

1 to signal the company's belief that nuclear is
2 something that is going to be extremely important
3 and that we must take an aggressive and public
4 stand on as we move forward, if it's going to
5 happen. So my role is to consolidate the
6 leadership of the development efforts. I guess
7 contrary to the *Charlotte Observer's* interview, I
8 do not run the nuclear plant. We have folks that
9 are extremely experienced; they don't need me to
10 help them with that, so I don't intend to do that.

11 But it is to promote and consolidate the
12 generation. It's also to advance the discussion of
13 the concept of regional generation that Jim Rogers
14 mentioned when we were here last, and to explore
15 what are the possibilities. We don't have anything
16 concrete at this point, but when I was asked -- I
17 was asked by one of the reporters, "What do you see
18 as the myths that are associated with nuclear
19 generation?" And I said, "Well I think there are
20 at least two myths. The first myth is that nuclear
21 plants are not safe. I think we have a proven
22 record both in our system, certainly across the
23 world today, experience with nuclear plants is
24 extremely positive and very safe. The second is
25 that we have to have a high-level waste depository

1 at Yucca Mountain in order to be able to have new
2 nuclear plants."

3 I describe that as a myth. Do I think we
4 should have it? I absolutely do think we should
5 have it. Have we paid for it, have our customers
6 paid for it? They absolutely have. But if, in
7 fact, the political will is not there to have Yucca
8 Mountain, we have made significant progress in the
9 storage on-site. We will be able, in my belief --
10 and I think throughout the industry you're hearing
11 this: We can have a Plan B that can allow for the
12 safe storage of waste at our plants. That's what
13 we've been doing, that's what can be done. We have
14 the technology for it. That doesn't say I don't
15 believe we shouldn't have Yucca Mountain, because
16 in our belief we should.

17 But what I said that the thing is not the myth
18 about nuclear power is the cost. It's very
19 expensive. It's always been expensive. We've
20 talked about the trade-offs in generation. We've
21 talked about -- and there are with each of the
22 types of generation that exist, there is something
23 that you can point to. Certainly with gas, you
24 have volatile fuel prices. With coal, you have
25 issues related to carbon and the environment. With

1 nuclear you have very high capital costs that we
2 have all seen go up within the last year or so.

3 And so the cost in 1978 when we sold Catawba,
4 it was primarily for cost. We had customers, we
5 banded together, we found a way to do it that today
6 is one of the best projects that we have done for
7 our customers and I believe for the region. And
8 the cost is -- we hear from many folks, less today
9 about issues of safety -- not that you don't, but
10 you will. We all will hear about that as we raise
11 the debate on nuclear. Because we have carbon
12 legislation that will come at the federal level, we
13 believe that could very well be a jumping-off
14 point, a burning platform for the discussion of
15 what base load we are going to have. But cost is
16 an issue.

17 And so part of my role in exploring the
18 different options is to find as many ways as we all
19 do -- all of the companies in this region -- to
20 make nuclear affordable and available, and to have
21 it be there so that the fleet we'll have in 30
22 years is the kind of fleet that we have today, that
23 offers the benefit for economic development.

24 And that's my new job. And I'm very excited
25 about it. I'm looking forward to being involved in

1 the debate -- the company is, as well -- and in
2 taking a role and working with all of our
3 stakeholders in order to make it move forward.

4 So, today, I would like to introduce to you,
5 as well, Brett Carter, who is our new president.
6 And Brett and I share at least one historical
7 issue. I was born in Connecticut, Brett was born
8 in Pennsylvania. I have come to the South and this
9 is my home, where I have lived for 30 years. In
10 fact, today when my children -- who were all born
11 here -- talk about -- my youngest son wants to
12 know, since my family was from Connecticut but my
13 husband's family is from the South, whether or not
14 he can be a true Southerner. I told him I was sure
15 that he can do that.

16 Brett and I share, as well, a customer focus.
17 Brett has been involved in the customer side of the
18 business for most of his career. He's only been at
19 Duke for five years, but brings to us an experience
20 with Aquila and with other companies that have
21 focused on the customer. And in a rising cost
22 environment, the customer is the key.

23 And Brett has been terrific in that, and he --
24 you will find him to be outspoken, to be direct.
25 You know, you assume he's capable of doing the job,

1 and he of course is that. But what he also will
2 bring will be a very refreshing perspective and one
3 that we will need. We will need his leadership.
4 I'm very delighted to be here with him today, and I
5 know you are going to enjoy working with him very
6 much. So I introduce to you Brad Carter.

7 **MR. CARTER:** Thank you. Thank you, Madam
8 Chairman and the Commission. I appreciate the
9 opportunity to come here and speak today. I always
10 considered myself a Southerner because my father
11 was born and raised in Como, Mississippi, and my
12 mother was raised in Kentucky where I spent a lot
13 of time growing up as a child. I actually spent my
14 elementary school years there. But, you know, I
15 was born in Pittsburgh, and so this weekend I have
16 to admit I was rooting for the Steelers, and they
17 pulled it out. I thought there might be a
18 Pennsylvania Super Bowl this year, but I was really
19 just glad to see my home team pull out a win.

20 I have been focused a lot on customer service,
21 and I started my utility career in Pittsburgh with
22 a company known as CNG, which was ultimately
23 purchased by Dominion, and then I moved from
24 Pittsburgh to Kansas City, Missouri, to work for a
25 company known as Utilicorp United, which ended up

1 becoming Aquila. And I've run every aspect of
2 customer operations, even the internal customer
3 pieces like the information technology, and have
4 great respect for the customer and key
5 stakeholders.

6 So, Catherine talked a little bit about my
7 goals and objectives. Starting in 2009, I have to
8 admit that in 2009, based on the feedback we have
9 received -- and we've received it from you -- is
10 really getting a strategic communications platform
11 out there for our customers and our key
12 constituents and stakeholders.

13 So with that, we have developed an advocacy
14 and education arm within my office that will be run
15 by Shawn Heath. We are dealing with concerns of
16 our customers today. I'll talk a little bit more
17 about that. It is just a very tough environment
18 right now for residential, commercial, and
19 industrial customers. And in a rising cost
20 environment, we are truly trying to let them know
21 exactly what we are doing to try and help them get
22 through these tough economic times. So what I'll
23 do is I'll talk a little bit about some of the key
24 items that we are focused on in the Carolinas at
25 Duke, and then I'll dive a little more into the

1 customer pieces and how we're trying to facilitate
2 some assistance for our customers.

3 I was actually at the Cliffside Site about two
4 months ago, and it would be great to have you all
5 go and visit that site, because it's actually
6 coming together very nicely. It's about 26 percent
7 complete. We've spent about \$1/2 billion at the
8 site; we've committed over \$1 billion to completing
9 the site. We still are having our fair share of
10 challenges. We most recently were in the news
11 because of the summary judgment we received
12 regarding the air permit. We feel that we have a
13 valid air permit, and we continue to work forward
14 and move that project forward. Today there are
15 over 700 people on the site. We anticipate that
16 we'll have over 1,600 people at the site working by
17 the end of this year. But we did file for a minor-
18 source requirement for that facility, which
19 basically would mean that this facility would meet
20 the requirements for being one of two cleanest coal
21 plants in the country. It is a restriction on the
22 hazardous air pollutants that a facility of this
23 type puts out. The Department of Air Quality has
24 preliminarily agreed with the fact that this plant
25 will be a minor source for hazardous air

1 pollutants. And the hearings that we were at and I
2 spoke at last week and that will continue tomorrow
3 are really centered around the Department of Air
4 Quality getting public opinion on our request to
5 have this plant with that accreditation, if you
6 will. The judge, in his summary judgment, did
7 require for Duke to move forward with what's called
8 the MACT process, and he provided us 60 days to
9 complete what's called a maximum achievable
10 controls technology process, and basically that is
11 a designation that states that we have the maximum
12 controls for restricting any air pollutants at this
13 facility.

14 But, if -- and we believe we will receive the
15 designation of a minor source, then the MACT
16 process would just be -- would not be necessary.
17 We would still, and we are still pursuing the
18 demands of the Court and participating in that
19 process. As a matter of fact, we have a hearing
20 with the judge, Judge Thornburg, today to -- just
21 to clarify that we are moving forward with the MACT
22 process as originally stated. This minor-source
23 piece is something that we sought on our own, prior
24 to any of these hearings, and we are very proud of
25 that facility.

1 Now, I'm going to assume that if you have
2 questions you'll just ask them along the way, or
3 I'll just keep rolling and we can save them to the
4 end, however you would like to do it.

5 **CHAIRMAN FLEMING:** Well, are there any
6 questions?

7 **VICE CHAIRMAN HOWARD:** I have one, but, I
8 mean, I can wait until the end. Whichever you're
9 more comfortable with.

10 **MR. CARTER:** I can roll through it, and we can
11 take them at the end.

12 **VICE CHAIRMAN HOWARD:** Why don't we do it,
13 because my memory fades, and I'll probably forget
14 it by then.

15 [Laughter]

16 **VICE CHAIRMAN HOWARD:** You were talking about
17 maximum control technology. One of those standards
18 now -- and I would think those standards apply to
19 Duke that apply to everyone else. I know in our
20 area Santee Cooper is having the coal generation
21 hearings. What are the minimum requirements for,
22 say, MOX, SOx, mercury, and those type of things,
23 the different elements.

24 **MR. CARTER:** Yeah, the goal that we were
25 looking for was 25 million tons of pollutants, of

1 total pollutants, and 10 million tons of individual
2 -- I would just say HAP. So those were the goals
3 that we were looking for in terms of restrictions
4 for our power plant to become a minor source.

5 **VICE CHAIRMAN HOWARD:** All of the elements.

6 **MR. CARTER:** All of the elements, in total, is
7 25 million, and individual was 10.

8 **VICE CHAIRMAN HOWARD:** How does that break
9 down on each one of them, or how does it break -- I
10 mean, I'm not asking you to be exact. It wouldn't
11 make any difference to me. I wouldn't know anyway,
12 if you were exact.

13 **MR. CARTER:** I -- go ahead.

14 **MS. HEIGEL:** I'm just going to interject. Ms.
15 Stempien is our primary lawyer on a lot of these
16 issues, so if you will, I'm going to have her join
17 us up here on the panel and let her answer the
18 emission -- the technical questions, if that's all
19 right, just to be able to give you all as much
20 information as you would like to have on this
21 issue.

22 **VICE CHAIRMAN HOWARD:** Okay, thank you.

23 **MS. STEMPIEN:** Just to clarify a little bit,
24 what Brett is referring to -- he's correct, it's
25 called hazardous air pollutants, and there are a

1 number of pollutants that qualify under the Clean
2 Air Act as those hazardous pollutants. They're
3 things like mercury, arsenic, selenium. The
4 pollutants you're talking about, NOX and SO₂, are
5 not hazardous air pollutants, and those are
6 regulated kind of -- there are additional
7 regulations that service those pollutants. And
8 they're not subject to maximum achievable control
9 technology; they are subject what we call BACT,
10 best achievable control technology.

11 And when the EPA and local air-permitting
12 agencies look at your emissions of BACT and NOx,
13 first they look at the air quality in the region to
14 determine whether or not you are in compliance with
15 the national air quality ambient standards, and
16 based on whether or not the region is in compliance
17 or not, they will determine the level of SO₂ and NOx
18 reductions that you have to make. And those are
19 typically based on a percentage of removal. So,
20 for instance, you may have 99 percent removal of
21 those emissions, which is -- the Cliffside plant
22 will be operating in 99 percent removal for SO₂ and
23 for NOx. Does that help clarify?

24 **VICE CHAIRMAN HOWARD:** Oh, yeah. Yeah. I
25 guess I was looking for a percentage, your 99, you

1 know. That's what I was looking for.

2 MS. STEMPIEN: So we're anticipating Cliffside
3 will be 99 percent removal.

4 VICE CHAIRMAN HOWARD: Thank you.

5 COMMISSIONER HAMILTON: Madam Chair.

6 CHAIRMAN FLEMING: Yes, Commissioner Hamilton.

7 COMMISSIONER HAMILTON: While we're on this
8 subject and we have the voice with us, what is this
9 -- as we move forward, you had your permit to
10 construct and build Cliffside, and these things are
11 happening as we're moving on I assume are
12 tightening the standards. What is it doing to the
13 cost?

14 MS. STEMPIEN: At this point, the costs we're
15 not anticipating to change at all. We believe
16 that, regardless of whether or not we have to do
17 this MACT analysis for mercury, at the end of the
18 day it's not going to change the design
19 construction of the plant. So we're not
20 anticipating that there's going to be a significant
21 increase in the cost. We may have to impact the
22 amount of reagents that we're cycling through the
23 plant at the time, but it will not affect the
24 design of the plant at all, and shouldn't have a
25 material change in the cost.

1 **COMMISSIONER HAMILTON:** And it has not
2 affected the construction schedule --

3 **MS. STEMPIEN:** It has not --

4 **COMMISSIONER HAMILTON:** -- with any delays?

5 **MS. STEMPIEN:** It has not thus far, and we are
6 not anticipating that construction will -- that
7 schedule will move off of the anticipated date that
8 we already have.

9 **COMMISSIONER HAMILTON:** Thank you. I'm glad
10 you're here with us today.

11 **MS. STEMPIEN:** I'm glad to be of some help.

12 **MR. CARTER:** So am I. Yeah, and we are on
13 time and on budget right now with the plant, and we
14 still anticipate the \$2.4 billion price tag to
15 stand, as Catherine stated. So, any more questions
16 on Cliffside that Catherine can answer for you?

17 **CHAIRMAN FLEMING:** And why don't we let you go
18 ahead and you finish with your presentation, and
19 then we'll get to questions and answers.

20 **MR. CARTER:** That's fair. All right. Moving
21 on to the Buck and Dan River projects, we have
22 modified those schedules. The Buck CT will come on
23 in 2011; the CC will come on in 2012. So we've
24 moved the schedule for the Buck facility by a year,
25 and we've also moved out the Dan River project by a

1 year, as well. And part of that was a part of our
2 -- sort of our capital restructuring plan, that we
3 looked at the end of 2008, and we're truly trying
4 to optimize the way that we are looking at these
5 projects and putting these projects on our capital
6 spending -- long-term capital spending program. So
7 those projects will both come on line in '12.
8 Again, that's just a delay of about a year.

9 If you move to the next bullet, on our rooftop
10 solar program, we did receive approval in December;
11 the order did, however, create sort of some
12 recovery uncertainty over the differential in the
13 costs of our program, based on the way they worded
14 the order. So we are looking to go back to the
15 North Carolina Commission and ask for a second pass
16 at how the language is worded there. So it is a
17 very -- we thought it was a very aggressive program
18 that's out of the box. It is a \$50 million rooftop
19 solar program that we are positioned to execute on
20 as soon as we can get the appropriate regulatory
21 language.

22 You want to add anything to that?

23 **MS. HEIGEL:** [Shaking head.]

24 **MR. CARTER:** We have gone in to the North
25 Carolina Commission, as well, with our wholesale

1 approach and strategy, and that is the Orangeburg
2 filing that you're reading at the top of that page.
3 All parties have filed their briefs on this
4 particular proposal. Prior to me coming into this
5 role, I headed up the wholesale sales group, and so
6 was very much involved in moving forward with the
7 declaratory order with the North Carolina
8 Commission to allow for our wholesale contracts to
9 be treated in a very fair manner, we thought,
10 across North Carolina and South Carolina, whereas
11 we would be allowed to charge system average cost
12 to wholesale customers, whether they be in North
13 Carolina or South Carolina. We did restrict it to
14 within our states of operation. We are waiting to
15 hear back from the North Carolina Commission on
16 that declaratory order, and hopefully, wholesale
17 customers such as Orangeburg will be able to become
18 full-requirements customers and be served at system
19 average cost.

20 I talked a little bit earlier about the
21 stakeholder education and advocacy. Again, that's
22 going to be a focus in 2009. We are looking to
23 come up with creative ways to communicate with our
24 customers -- electronically, as well. We saw a
25 major shift in the way that folks are communicating

1 and so we want to make sure that we are staying on
2 top of that by creating methods such as e-mail and
3 websites and blogs to communicate the changes in
4 our system costs, and hopefully educate them on why
5 costs are rising. There is a national surge in
6 building in the utility sector, which is driving up
7 costs, and so that will impact rates as we move
8 forward with our rate cases -- and I'll talk a
9 little bit about that next.

10 The unfortunate thing is that we are in a very
11 tough economic environment. And we know that our
12 customers are feeling the impact. We've had an
13 increase across our entire customer base of about
14 5-1/2 percent of disconnect orders in 2008. We
15 have stepped up our efforts with special assistance
16 programs. We spent over -- about \$2-1/2 million
17 last year in assistance to help customers meet the
18 needs of their utility bills, but we feel like 2009
19 is going to be an even more challenging year for
20 them. So we are looking to step up our efforts
21 there, and it's just -- it really is a tough time
22 for all of our customers. I know I've gone out to
23 visit some of our industrial customers, as well,
24 that are feeling the pinch of the economy, and we
25 are looking at ways to hopefully resolve or help

1 them resolve some of this through the short term.
2 As we focus on long-term economic development
3 opportunities, we are definitely looking at the
4 short-term worries of our customer base.

5 Now, I'm going to move to the next slide,
6 which is sort of a summary of our base rate cases.
7 We -- and I describe this as our friends-and-family
8 plan, because we do anticipate filing three rate
9 cases over the next four years and so we'll be
10 seeing quite a bit of you. And these are the
11 primary drivers of those rate cases. We anticipate
12 that we'll be filing our first rate case in South
13 Carolina mid-year of this year, and then we would
14 anticipate that we'll have two additional rate
15 cases between now and 2012.

16 Obviously, these aren't specific dates for
17 these projects to be completed; it's just sort of
18 an overview, if you will, of the primary drivers
19 for those rate cases.

20 **MS. HEIGEL:** We call this the full-employment
21 act for regulatory lawyers.

22 [Laughter]

23 **MR. CARTER:** This is sort of our projection of
24 what that rising cost environment that I referred
25 to earlier looks like for the Carolinas, against a

1 national average. We believe that the approach we
2 are taking in the Carolinas will maintain our
3 competitive advantage in terms of pricing, against
4 the national average. This is not meant to reflect
5 any anticipation of what you might pass in terms of
6 rates, rate filings to our customer base. This is
7 really just a depiction. We know we don't have
8 control over what goes through, but in all fairness
9 this is an estimation of what we believe that our
10 fuel-cost increases look like and our all-in costs
11 look like year-on-year for the next five or so
12 years. 2007 and 2008 on the blue line are actual
13 numbers, and then 2009 through '13 are estimations
14 on where we think our costs are going. The green
15 line is a U.S. average cost increase with a 5
16 percent inflation rate annually, which is a very
17 clear or fair depiction of where we've seen costs
18 going on a national basis.

19 So again, we believe that we're going to
20 maintain our competitive pricing and cost advantage
21 in terms of energy, when compared to the national
22 average.

23 I believe that is all I have. Madam Chairman,
24 following your lead, we would be glad to take
25 questions.

1 **CHAIRMAN FLEMING:** Yes, and I'm sure we'll
2 have a few more at this point. But thank you, very
3 much, for that presentation.

4 **MR. CARTER:** Thank you.

5 **CHAIRMAN FLEMING:** Commissioners --
6 Commissioner Mitchell.

7 **COMMISSIONER MITCHELL:** Glad to have you all
8 with us today.

9 **MR. CARTER:** Thank you.

10 **COMMISSIONER MITCHELL:** Ms. Ruff mentioned the
11 nuclear end earlier, and I'm sure you might need --
12 might want some assistance on the legal question.
13 I guess whether -- I believe, and correct me if I'm
14 wrong, is it approximately 38 states that might be
15 involved in the nuclear decisions, as far as
16 storage in the United States, is that correct, of
17 the --

18 **MS. RUFF:** That sounds right. That sounds
19 roughly right.

20 **COMMISSIONER MITCHELL:** And what I want to
21 know, in direct reference with Yucca Mountain, as
22 you spoke earlier, will there be a consensus among
23 those 38 states, do you feel to -- with the new
24 administration coming in? And you spoke also about
25 on-site storage that might -- would be available

1 through Duke. Could you tell me what the other
2 companies are preparing to do, in case Yucca
3 Mountain -- that doesn't work? And second, if
4 there will be a consensus among those 38 states,
5 which should supply a pretty good consensus to try
6 and change any decisions Congress has rendered in
7 the past, and what can you tell me about that?

8 MS. RUFF: It's a great question. And if
9 anything signified, you know, we are on sort of the
10 cusp of change of some kind, certainly everyone
11 feels that we are there. There has been --
12 everyone I think across that's been in the nuclear
13 industry, generally speaking, through any eye, has
14 represented and sort of maintained the position,
15 the need for Yucca Mountain. I don't think it's
16 any surprise to anybody either, in this room, that
17 it has been primarily Senator Reid who's been very
18 influential with regard to the ability to move the
19 waste into the state. And with the appointment of
20 -- Waxman is head of the -- moving in that
21 direction in Energy. I think there has been a
22 concern, and Senator Reid was quoted in the paper
23 -- although I have learned not to believe
24 everything that's in the paper and quoted -- they
25 said, you know, that he felt very confident that

1 Yucca Mountain and the administration would not
2 move forward with Yucca Mountain, that he felt that
3 they would be supportive of sort of staying where
4 we've been for the last, 10, these many years.

5 So, but I will tell you in my personal belief
6 and optimism, is that we are going to be in a
7 position where we are going to have to consider
8 every option. I think the new administration has
9 indicated an openness to re-look at ideas we have
10 had, and to your point Commissioner Mitchell, the
11 idea that these number of states that have been
12 involved in high-level waste and looking for the
13 solution -- indeed, charging their customers for it
14 over the years -- there will be a big press, I
15 think, to try to make that happen. But I also
16 think, practically speaking, almost every one of
17 the companies with whom we have been engaged in
18 nuclear have been looking for a Plan B. We're
19 going to have to have one. We're going to have to,
20 if we truly cannot move forward with Yucca
21 Mountain. We need for it not to be the stumbling
22 block that keeps us from moving forward.

23 But I am optimistic that the administration
24 and certainly the new Secretary of Energy, Dr. Chu,
25 has indicated his openness with regard to nuclear.

1 For a long time we talked about renewables, we
2 talked about green power, we talked about -- a lot
3 about carbon. Most of the debate at the federal
4 level has been relative to coal plants and carbon.
5 But if you are going to have a solution for that
6 and move in the direction of having limitations on
7 carbon at the federal level, we are going to have
8 to look at having base load that doesn't have
9 carbon, and there's only one kind of base-load
10 plant that doesn't.

11 So I think we're going to have a very robust
12 debate on this subject. I'm very hopeful that we
13 will. At least up until now it's still, whenever I
14 say, "So what is green? What is renewable? Where
15 is the administration, new administration on
16 nuclear," it's not discussed. We continue to need
17 leadership on the nuclear issue and an open debate
18 so that we can decide, I believe as a country and a
19 region, that we need to move forward with nuclear.

20 So I am optimistic. I don't think we have an
21 answer. Senator Reid is very strong in his
22 position and continues to be.

23 **COMMISSIONER MITCHELL:** Do you see any union
24 -- that union growing between the 38 states any?
25 Have you seen any movement as far as any consensus

1 or -- within the last while?

2 **MS. RUFF:** I am new enough into this role,
3 Commissioner Mitchell, that I would feel remiss in
4 commenting on consensus. However, because most of
5 the debate among those 38 states appears to have
6 been over the issue of allowances and carbon, I
7 think the one thing we know is we certainly do not
8 have consensus on that. And that has tended to
9 polarize on those subjects, but there has been
10 general consensus through any eye that we need
11 Yucca Mountain and we need high-level waste, and I
12 suspect Commissioner Wright has a very direct view
13 of that. But I think all of us have seen it as
14 something that we need to have.

15 But I do believe people will begin to move in
16 the direction of Plan B, and a consensus that, if
17 we can't have it, what is it that we can do. And
18 on-site storage is certainly something we have
19 talked about for several years as being able to do
20 that. There has been discussion about regional,
21 whether or not you want to have regional
22 repositories. And historically we haven't always
23 done so well with regional repositories. Still
24 everyone has to decide which state they're going to
25 be in.

1 So I think, Commissioner Mitchell, whether
2 there is consensus, there is a clear understanding
3 that we need to put this issue and the questions
4 about it to bed, so that it doesn't become the
5 issue that keeps us from moving forward. I do
6 believe there's consensus on that subject.

7 **COMMISSIONER MITCHELL:** My second question
8 would be, if Duke adds generating capacity to serve
9 wholesale customers, and if those wholesale
10 customers later switch suppliers, will retail
11 customers pay for the resulting excess of
12 generating capacity?

13 **MS. RUFF:** I'm going to look at Mr. Carter for
14 him to answer first.

15 **MR. CARTER:** Well, yeah, the -- specifically
16 to Orangeburg, the Orangeburg contract did not have
17 an impact on generation, and that was the case that
18 we were leading in with, and obviously there was a
19 small upward pressure on rates with the addition of
20 that contract. But all of the contracts that we
21 have signed regarding wholesale contracts are
22 staggered in a way that allows for us to, even if
23 the wholesale customer were to choose not to renew
24 with us, to grow into the load. And those are
25 based on -- obviously, that growth is based on the

1 history of how our customer base has been growing
2 over the last several decades.

3 So the anticipation of the plan was to ensure
4 that as those contracts came due, that we didn't
5 have a huge amount of capacity that could not be
6 grown into with our existing retail base, and so we
7 were being very strategic about the way we added
8 those wholesale contracts. And if a wholesale
9 player were to leave the system, then there would
10 be a -- I'll just say a gap, in terms of where you
11 stood with generation at that point, where you were
12 anticipating. But these contracts are so long and
13 the lead time for preparing for those contracts are
14 so long that it really allows for you to plan this
15 into your IRP process in a way that we just say --
16 we continue to use the term, it flattens out the
17 use of your capacity on your system.

18 So that's was the approach that we have taken
19 and that was the strategy that we were moving
20 forward with.

21 **COMMISSIONER MITCHELL:** Thank you.

22 **CHAIRMAN FLEMING:** Do you have anything to
23 add, Ms. Ruff?

24 **MS. RUFF:** I was just -- in my testimony I
25 testified, as well, you know, in the proceeding

1 before the North Carolina Commission on Orangeburg,
2 and we specifically testified that we understood
3 our responsibility to the retail customer and that
4 the generation -- in this case, we didn't need to
5 add generation for Orangeburg, but that in every
6 instance we had a responsibility that it would have
7 no adverse impact on retail customers and that we
8 believed the benefit to the overall system and to
9 the regional generation planning was positive. So
10 that was in my testimony with regard to the retail
11 customers, specifically.

12 **CHAIRMAN FLEMING:** Commissioner Wright?

13 **COMMISSIONER WRIGHT:** Good morning.

14 **MR. CARTER:** Good morning.

15 **COMMISSIONER WRIGHT:** This is very
16 interesting. I have several questions that have
17 come to mind. One, before we leave Orangeburg,
18 who's going to pay for the transmission from Duke's
19 service territory to Orangeburg?

20 **MR. CARTER:** Well, that's actually
21 incorporated into the Orangeburg contract, so
22 Orangeburg does pick up their cost associated with
23 the transmission.

24 **COMMISSIONER WRIGHT:** Okay. North Carolina's
25 RPS that you referred to in here, have they changed

1 or relaxed any of that, their initial things? And
2 if they haven't -- their goals or whatever -- I
3 guess their goals -- are you going to find it
4 difficult to meet? And how difficult, and how does
5 it impact customer cost to meet that? Because we
6 don't have one here, you know.

7 MS. RUFF: Right.

8 COMMISSIONER WRIGHT: I guess I'm just trying
9 to get a handle on it.

10 MR. CARTER: There hasn't been any relaxing to
11 the RPS. You're talking -- yeah. There hasn't
12 been any relaxing to the RPS as of recently. I
13 mean, it's the same as it has been, and we have
14 been pursuing meeting those requirements. And if
15 you heard about the Sun Edison contract, which is a
16 solar contract that has been delayed a bit in terms
17 of just land availability and negotiation, but we
18 felt very much so that we were going to be able to
19 achieve the RPS in the short term, with that
20 contract, and with our distributed solar approach.

21 So, in the short term we felt we had it
22 covered. We had a long-term strategy that shows
23 how we would achieve the RPS mandates. It didn't
24 feel like we were going to have problems meeting
25 that. From a cost perspective, any incremental

1 costs, of course, were covered by the mandate. So
2 from a South Carolina perspective, that would not
3 have a detrimental impact to the customer base,
4 that incremental cost.

5 **COMMISSIONER WRIGHT:** The Office of Regulatory
6 Staff here recently issued -- they did a survey, I
7 guess with all the major utilities, and they issued
8 a report kind of summarizing everything. And one
9 of the things that was noticed in that report was
10 the reserve margin declined over the next, I guess,
11 seven to ten years or less, if nothing was done for
12 base-load generation. Have you seen the report?
13 Have you all read that?

14 **MR. CARTER:** [Nodding head.]

15 **COMMISSIONER WRIGHT:** Are you seeing the same
16 type of situation in North Carolina and other areas
17 that you serve, where the reserve margin shrinks
18 and maybe even goes negative?

19 **MS. HEIGEL:** Assuming no additional --

20 **COMMISSIONER WRIGHT:** Exactly.

21 **MS. HEIGEL:** -- generation is brought on line?

22 **COMMISSIONER WRIGHT:** Yes.

23 **MS. RUFF:** Certainly as part -- yes, we have
24 seen the need to add generation. You can see it
25 through our integrated resource plan that we work

1 on and update every year, with whatever the most
2 recent load forecast is. And in our most recent
3 plan, as we looked out over the next planning
4 horizon, ten years or so, you can see you have to
5 add generation. Even with successful renewables,
6 successful energy efficiency, you still need to add
7 generation in order to meet your load, going out
8 through that timeframe. It's very clear. It's
9 clear in North Carolina. It's a more frequently
10 discussed issue here in South Carolina, and
11 certainly in the report; and in North Carolina,
12 we've been very focused, as Mr. Carter said, on the
13 implementation of the RPS. We're in the first year
14 or so of it. Worked out the rules, that took
15 awhile to do. We've signed the contract with Sun
16 Edison. But we are in very early stages, and we
17 have a plan to get there but it is accurate to say,
18 even with that if we are successful with it, that
19 we will still need to add generation in order to
20 meet the load.

21 **COMMISSIONER WRIGHT:** Finally, I want to go
22 back to Commissioner Mitchell -- I couldn't resist
23 -- five years ago I guess you would agree with me
24 that we really wouldn't be talking about this, not
25 like we are today, where nuclear generation and the

1 building of plants is the way they're talking about
2 it today.

3 MS. RUFF: That's right.

4 COMMISSIONER WRIGHT: Yucca Mountain, when it
5 was mentioned by name, really the reason Yucca
6 Mountain is being mentioned is because that's the
7 only thing that's been adopted as law in the United
8 States, but are you hearing -- like I am hearing,
9 and especially through NARUC -- that the discussion
10 on the Hill and around the country is starting to
11 get more of a focus on maybe recycling,
12 reprocessing starting to come up?

13 MS. RUFF: Yes.

14 COMMISSIONER WRIGHT: You've got really two
15 schools of thought out there, treating waste
16 differently -- one, obviously the defense waste
17 that you've got is not a candidate, so it's got to
18 be treated separately, and then you've got your
19 commercial fuel that's not really being treated as
20 waste anymore; they're talking about it more as a
21 resource because they're looking at recycling in
22 the future. So I guess that is going to be -- and
23 there's even been, I think, a couple of bills
24 introduced last year and maybe reintroduced this
25 year, possibly, that dealt with setting up

1 corporations or things like that.

2 MS. RUFF: Yeah.

3 COMMISSIONER WRIGHT: Are you all going to
4 play an active role from a company standpoint in
5 trying to get that legislation or legislation that
6 does deal with the commercial spent fuel? Are you
7 all going to get involved in that, or are you --
8 how active will you be?

9 MS. RUFF: We have certainly been very active
10 here in South Carolina, the nuclear cluster, in the
11 issues surrounding which direction we're all going
12 to move. And reprocessing, I'm still adjusting so
13 that I will remember to call it recycling, since
14 that is a better turn of phrase than reprocessing.
15 We will be very active in all of the federal bills
16 in terms of trying to find a solution.

17 I admit, for my own personal standpoint, every
18 time you get to the issue of reprocessing it's one
19 that sometimes makes people stand back, but it is
20 very clear that it is a way to reduce the amount of
21 waste. I think it is becoming clearer it is not
22 the issue of safety or issue of sort of
23 proliferation that was raised in earlier years,
24 that there's a way to do this very safely through
25 an all-in cycle that is then called recycling. So

1 we intend to be very active on the Hill at the
2 federal level. We have been. We've had our folks
3 who have already been doing that, and we intend to
4 step it up, to do that.

5 I think -- I am not aware yet that there is a
6 consensus particularly on this issue. Sometimes as
7 we begin to address this issue, I worry we bring
8 more issues than we have an answer to at the
9 moment, except to know that we need to move on and
10 to resolve them. So you will see us on all those
11 fronts.

12 **COMMISSIONER WRIGHT:** Okay. Thank you.

13 **CHAIRMAN FLEMING:** Commissioner Howard.

14 **VICE CHAIRMAN HOWARD:** Ms. Ruff, a couple of
15 questions. What is the status of your current
16 nuclear plant? What is your status today? And I
17 guess I'm asking as to your job security, but --

18 [Laughter]

19 **MS. RUFF:** I appreciate it. I asked that
20 question, as well, Commissioner Howard, before I
21 moved into this job. That was really important.
22 At the moment, we have our COL on file with the
23 NRC. It is moving forward in that stage. We are
24 also active in filing for the federal loan
25 guarantees that are involved, and there will be

1 more to come on that issue, but not today.

2 In terms of the certificate filing and the
3 Base Load Review filing, we had intended to file
4 probably fourth quarter of last year. We are now
5 -- you know, we were negotiating at a point in time
6 when the costs had all gone up, with our suppliers,
7 to get an EPC contract. Clearly I think the
8 execution of an EPC contract is a critical issue,
9 and although we are still in discussions, I think
10 our intent now would be to file -- still plan to
11 file for the certificate in the first quarter of
12 2010, which still allows us to meet a commercial
13 operation date of 2018. We had some flexibility in
14 the schedule. And what we needed to do as I moved
15 into this role was just sort of to regroup, to look
16 at the issue of the regional generation,
17 negotiations on the EPC contract, but it is -- we
18 are committed to moving forward with those
19 discussions. It's an active site. Certainly there
20 are issues in the community, as we move forward and
21 we're discussing permitting and other issues.

22 So I would say it's moving. And have we --
23 and I hope you'll see a certificate in the first
24 quarter of 2010.

25 **VICE CHAIRMAN HOWARD:** One other question you

1 mentioned briefly. What is your concept of
2 regional generation? How do you see that
3 operating? I know you're in two states now -- you
4 know, two -- North and South Carolina. There are
5 other states in there, but -- what do you see with
6 regional generation, and how large a geographical
7 area, for example, does that encompass?

8 **MS. RUFF:** Also a great question, Commissioner
9 Howard. And you know, when we say how do we see it
10 operating, one of the things as you look at these
11 plants and the long lead time and the cost
12 associated with it, and as Mr. Carter spoke about
13 sort of we all like to call it the lumpiness of
14 generation as it comes on, two big units at one
15 time, it seemed to us that there could be the
16 possibility of an issue of those who needed nuclear
17 generation, if the timing was right, going in
18 together.

19 The region could be one state, could be two
20 states. When I think about it, primarily, I first
21 think about our service territory and think about
22 the Carolinas. Could it be larger? It could be,
23 if there were that consensus and the will to do it.
24 And it could take many forms. We've had undivided
25 ownership interests in our own history with

1 municipals and cooperatives. The challenge is, I
2 think, presented with the federal loan guarantees
3 that are out there and available. As with every
4 lender and all financings, there are issues
5 associated with that, which are the things that we
6 are exploring. We are in line. I think most
7 people would like to see that work.

8 But the region could be the Southeast. The
9 region could be the two states, one state. And we
10 are very open to those discussions, to find
11 something that will work, that will allow us to
12 share risk and to share costs and to bring the
13 benefit to customers.

14 **VICE CHAIRMAN HOWARD:** Thank you. Mr. Carter,
15 one question for you. Talking about the RSP
16 standard, particularly in North Carolina's, is
17 there a limit on percentage of renewable to be
18 purchased power from renewable generation, or do
19 you have to produce some of that renewable energy
20 yourself?

21 **MR. CARTER:** Is there a limitation on --

22 **VICE CHAIRMAN HOWARD:** The amount of purchased
23 renewable power you can buy in that RPS.

24 **MS. HEIGEL:** You're talking about RECs --
25 renewable energy credits -- to satisfy the

1 requirement?

2 **VICE CHAIRMAN HOWARD:** Correct.

3 **MS. HEIGEL:** Okay.

4 **MR. CARTER:** Yeah -- yes, I believe that
5 percentage is actually 25 percent. Is that
6 correct?

7 **MS. HEIGEL:** I believe that's correct, but
8 we'll check and make sure.

9 **VICE CHAIRMAN HOWARD:** Yeah, that's fine, I'm
10 just curious as to an estimate. That's fine.

11 **MR. CARTER:** Yeah, it's about 25 percent, from
12 my recollection of the RPS, but I will have to
13 check and get back to you on that.

14 **VICE CHAIRMAN HOWARD:** Okay. Thank you, very
15 much.

16 **MR. CARTER:** Uh-huh.

17 **CHAIRMAN FLEMING:** Are there --

18 **COMMISSIONER HAMILTON:** Madam Chair.

19 **CHAIRMAN FLEMING:** Yes, Commissioner Hamilton.

20 **COMMISSIONER HAMILTON:** I have one. I think
21 mine is more a statement than a question, but as a
22 Commissioner I really appreciate you folks taking
23 the time and the effort to come and, under the
24 rules and the Act that we operate, this is a way
25 that we can keep up with what's happening, and it's

1 very beneficial.

2 But going back to Ms. Ruff's answer to
3 Commissioner Mitchell's question, I've been around
4 for a long time and we've heard them talk about
5 nuclear waste disposal, and I think that was
6 probably the most positive and enthusiastic
7 approach and answer to it that I've heard. I
8 almost felt, being a good American, that it was
9 time to pass out the apple pie.

10 [Laughter]

11 **MS. RUFF:** Exactly right, Commissioner. Thank
12 you.

13 **COMMISSIONER MITCHELL:** Ms. Ruff is a very
14 good cook.

15 [Laughter]

16 **MS. HEIGEL:** Well, we thank you all, very
17 much, for your --

18 **CHAIRMAN FLEMING:** We have more questions.

19 **MS. HEIGEL:** Oh, you do.

20 **CHAIRMAN FLEMING:** Commissioner Whitfield.

21 **COMMISSIONER WHITFIELD:** Madam Chair, I do
22 have one quick one. You touched on it, and it
23 doesn't matter if Mr. Carter or Ms. Ruff answers
24 this one. But I think both of you touched on the
25 Orangeburg situation, and you said it wouldn't

1 affect generation -- if I heard both of you right.
2 I think both of you touched on that briefly. But
3 would there be any other implications to the
4 vertically integrated electric model used in the
5 Carolinas, other than what you mentioned about
6 generation?

7 **MR. CARTER:** I don't think that there would be
8 any more impact there. You know, the way we've
9 looked at the -- the way we've looked at this model
10 was one where our wholesale customers basically
11 become like a retail customer to us. And I'm
12 trying to see where you're thinking about in terms
13 of the vertical integration, if there are other
14 points. Can you be any more specific?

15 **COMMISSIONER WHITFIELD:** Well, I think you
16 were also talking about, in your IRP, that you said
17 you wouldn't have to -- you would gradually phase
18 out the demand, or you had -- there were long-term
19 contracts, I believe you said.

20 **MR. CARTER:** They are. They are long-term
21 contracts.

22 **COMMISSIONER WHITFIELD:** And you would
23 gradually phase out the demand so that it wouldn't
24 be felt quite as much. I guess, were there any
25 other impacts that this agreement may have, that

1 you know of?

2 **MR. CARTER:** No, not at this point. We
3 haven't seen anything -- any other impacts.
4 Actually, you know -- and I'll just follow up on
5 something that Ellen touched on earlier. It can be
6 helpful for us in terms of planning for this -- for
7 additional generation, especially when you're
8 referring to something as large as a nuclear
9 facility coming online. It does have positive
10 implications in terms of the amount of capacity
11 that we're able to use day one, if we can phase
12 these contracts in at the appropriate time.

13 The contracts, as I stated before, typically
14 have a long lead time, and so it allows for us to
15 much more effectively look at our generation needs.
16 It gives us an opportunity to really plan out when
17 we are pulling these facilities online, and how we
18 are timing that against these contracts. Today, we
19 probably have about 3 percent of our customer base
20 that are wholesale customers. And the way we had
21 mapped out our strategy to add about 1,500
22 megawatts of wholesale landed us probably in the 8
23 to 10 percent range. So it wasn't something that
24 significantly tipped the scale, but it was
25 something that helped us better flow our system,

1 from a capacity perspective.

2 COMMISSIONER WHITFIELD: Thank you. That's
3 all I have, Madam chair.

4 CHAIRMAN FLEMING: Okay.

5 MR. CARTER: I was going to just say one thing
6 about the reprocessing. And I'm sure you probably
7 know this, but Ellen was talking about the
8 opportunities for that in the States. And France
9 has been actually doing that for decades, and
10 they've been doing it safely. You know, if there's
11 any model out there, I would think that might be
12 one that we look at, but I'm sure -- you know, and
13 Ellen and I have talked about that before. It's
14 definitely something that I think Duke will be very
15 interested in modeling, in looking at.

16 MS. RUFF: Unfortunately, sometimes referring
17 to what they do in France is almost as bad as
18 referring to what they do in California.

19 [Laughter]

20 MR. CARTER: That is true.

21 MS. RUFF: But they have been very successful
22 in doing it very safely.

23 CHAIRMAN FLEMING: First thing we'd have to do
24 is change the law, though, right?

25 MS. RUFF: I believe what we will have to do

1 is to change our will to do it. I think we will
2 have to discover that we have that will, and that
3 we as a country have it, and as a region.

4 **MR. CARTER:** That's right.

5 **CHAIRMAN FLEMING:** It's been done?

6 **COMMISSIONER WRIGHT:** It's our technology.

7 **CHAIRMAN FLEMING:** Oh, I thought that -- but I
8 was under the understanding that George Bush -- it
9 is George Bush Sr. that actually prohibited that
10 process.

11 **MR. CARTER:** Jimmy Carter.

12 **MS. RUFF:** It was Jimmy Carter.

13 **CHAIRMAN FLEMING:** Jimmy Carter, okay. So
14 that's still in effect, currently?

15 **MR. CARTER:** It is. It is.

16 **CHAIRMAN FLEMING:** That's what I thought. So
17 that, I mean, we would have to have the will to
18 change that.

19 **MS. RUFF:** We do.

20 **CHAIRMAN FLEMING:** Okay.

21 **MS. RUFF:** But it can be done. And should be
22 done.

23 **CHAIRMAN FLEMING:** Mr. Carter, I wanted to get
24 back -- I was interested in hearing about your
25 customer service -- your focus on customer service

1 and strategic communication efforts. Could you --
2 and talking about your concern with what is
3 happening in this economic environment and the
4 increase of disconnects. Specifically, what are
5 you doing to try to help customers, both residents
6 and companies, deal with this?

7 **MR. CARTER:** That's a great question, Madam
8 Chairman. I know for a fact that we are trying our
9 best to get in front of the issues, by
10 communicating with our residential customers to let
11 us know as far in advance as possible when they
12 feel that there is going to be an issue with them
13 being able to meet their utility bill. And we are
14 putting in very -- I'll just say -- aggressive
15 steps to allow for payment arrangements for
16 residential customers to meet those bills within
17 the guidelines of our operation. We are definitely
18 trying our best to get the word out that we
19 understand that there is an economic crisis and
20 that the sooner they can get in touch with us, the
21 much easier it will be for us to put in play an
22 arrangement that can fit their budget.

23 We also stepped up our contributions to the
24 Share the Warmth program this year, and we've put
25 an additional approximate \$1/2 million into that

1 Share the Warmth program to help needy folks with
2 their utility bills.

3 Obviously, some of the larger customers,
4 especially the industrial customers, are seeing the
5 downturn, and so our efforts there are to try and
6 figure out if there is a way to either reach out to
7 the Commission potentially, and look at ways to
8 alleviate some of those pressures through
9 regulatory means. So there are some areas where we
10 feel that if we can give the customer the list of
11 contacts that we have, that are social programs,
12 some of which we are trying to fund, we can ward
13 off the disconnect action that is imminent if we
14 cannot get to where we need to be in terms of
15 payment from the customer.

16 **CHAIRMAN FLEMING:** And how are you
17 specifically targeting the groups that may be more
18 susceptible, to get that information to them?

19 **MR. CARTER:** Right. We have an e-mail base,
20 actually, that we have been updating on a regular
21 basis. Our customer service center is also usually
22 the first line of defense for communication, for
23 all of our customers, and a lot of times the
24 customers don't like to say what the real problem
25 is. So we are educating and training them on how

1 to extract information that would lead us to
2 getting them in touch with the appropriate parties
3 who could either get them some help or to be more
4 aggressive with the payment arrangements.

5 Our centers can handle anywhere from 35-40,000
6 calls a day, and so through that, we are trying to
7 be as aggressive as we can be with communicating
8 with them, you know, what we're dealing with and
9 extracting that information. There's a lot of
10 pride that goes along with a person who is on a
11 fixed income and when they see an increased bill,
12 they really don't want to say that "I can't afford
13 to pay this." And so we have a flagging system
14 within our CIS system that basically shows
15 customers that might be at some disadvantage --
16 I'll just put it that way. So we are leveraging as
17 much information as we can to try to get in front
18 of that.

19 I will say that, you know, the customer
20 advocacy and education role is brand-new. I came
21 into the role -- into this role in December, and we
22 named the customer advocacy and education role on
23 December 1. We still have a lot of work to do, and
24 we're moving as quickly as we possibly can to
25 develop other methods to communicate. I talked a

1 little bit about giving folks the information
2 electronically via e-mail, I talked a little bit
3 about giving folks the information via blogs, which
4 is in an online communication system, and our
5 website. But we are going to get a lot more
6 intentional about getting in front of this issue.

7 And so, as Shawn takes the helm and starts to
8 move that forward, we would hope to be able to get
9 back to you with some real solid steps on what
10 we're doing to help customers deal with this tough
11 time.

12 **CHAIRMAN FLEMING:** Okay. But, I mean, it
13 sounds like primarily, now, they either have to
14 have the ability to get on the Internet or that
15 capability --

16 **MR. CARTER:** Or call in.

17 **CHAIRMAN FLEMING:** Or call in. I mean, they
18 have to make that effort. But there's no outreach
19 in specific areas?

20 **MR. CARTER:** Well, I'll tell you, our account
21 reps are working with our customers, our larger
22 customers, and getting the word out to them about
23 the situation. I know in a specific case where we
24 have actually gone out and touched base with a
25 large business customer and said that "As we look

1 at the information relating to your particular
2 company, we feel that you may have some -- we have
3 concerns about you being able to meet your payment.
4 And if this continues, here are the steps that we
5 will have to take," but at the same time giving
6 them a heads-up that here's the criteria that we're
7 looking at and here are the steps that you need to
8 take in order to help avoid that.

9 So when we are approaching these large
10 business customers we are giving them several
11 options by which to try to avoid any more
12 aggressive disconnection type activity. And one of
13 the methods is a pre-payment method, one of the
14 methods is a surety bond. So we are trying to
15 formulate the appropriate solutions, especially in
16 the large-business sector, to avoid us having to go
17 to that final, final step.

18 That is a very aggressive approach that we've
19 taken within our community relations team, dealing
20 with the larger customer base. On the mass
21 customer side, retail customer side, it has not
22 been as proactive as we would like it to be, but we
23 will be stepping those efforts up.

24 **CHAIRMAN FLEMING:** And at times I know when a
25 customer could be having problems, the level of

1 deposit that is required is increased. Doesn't
2 that make it even more difficult for the customer
3 to successfully meet payment requirements?

4 MS. HEIGEL: Do you want me to go over that?

5 MR. CARTER: Please.

6 MS. HEIGEL: We -- because we are aware of a
7 particular customer letter that was sent to the
8 Commission, we want to be particularly sensitive to
9 this topic, but regulations --

10 CHAIRMAN FLEMING: I'm not asking the question
11 in reference to that. This is across the board.

12 MS. HEIGEL: All right. Generally speaking,
13 Regulation 103-331 allows the company to request
14 deposit -- additional deposit from customers when
15 there has been two months of late payments or
16 delinquency. Duke Energy Carolinas happens to have
17 a blanket rule waiver that this Commission has
18 approved, that allows us to request a deposit under
19 certain circumstances when all our internal folks
20 who review customer credit ratings determine that
21 the risk -- it's an internal rating risk factor --
22 reaches a certain level, then -- and it's somewhere
23 equivalent to, you know, a CCC rating. We don't do
24 it until it's really, we feel, the company's on the
25 brink, and at which point we then approach the

1 customer and ask them for additional security.

2 We can ask for up to the 60 days of the
3 average-usage billing history for that deposit
4 amount. We have typically worked with customers
5 not to ask for that full amount, 45 days, but that
6 is generally the period of time at which we would
7 be at risk.

8 And we have used that very successfully to
9 help minimize the burden that would be picked up by
10 other customers, should these questionable accounts
11 actually turn into accounts receivable for the
12 company, because as you can appreciate, some of the
13 larger nonresidential customers have very
14 significant monthly billings, and should those fall
15 into doubtful account or an account receivable, in
16 the event of a customer bankruptcy or something to
17 that effect, then that is an expense that the rest
18 of the customer class and customers pick up. So
19 what we're trying to do -- and I think what Mr.
20 Carter was alluding to -- was it's a balance that
21 we try to strike between being prudent in
22 protecting all customers from picking up
23 unnecessary costs that we could have prevented or
24 headed off from having to incur, versus how do we
25 not pile on, as you're saying, to the customer who

1 is trying to meet a monthly payroll and trying to
2 meet monthly expenses.

3 And so what we have been doing is asking
4 customers to prepay, based on an estimated usage,
5 and that's one way they can do it. Letter of
6 credit, surety bond, or other ways. And these are
7 things that we are working with customers to do,
8 and for the nonresidential customers we have the
9 account reps and we very proactively reach out to
10 them and work with them, because we do see these as
11 long-term relationships and we do want to work with
12 customers to try to ride through this difficult
13 period in the economy, yet at the same time balance
14 that with the interests of being prudent and
15 protecting other ratepayers from picking up
16 expenses that they should not have to bear.

17 So we are looking at ways that we might be
18 able to work more proactively with those customers
19 to see through the long haul. We've talked with
20 the Office of Regulatory Staff, ORS, about this
21 issue and they are, of course, a partner of ours in
22 trying to help customers, both residential and
23 nonresidential, deal with these issues, and they
24 often are helpful in referring residential
25 customers who call them about billing concerns or

1 payment ability issues, to referring them to us and
2 to Ms. Barbara Yarbrough and others who can then
3 direct them to the special assistance agencies. So
4 this is a very -- this is a very topical issue,
5 very tough issue for us, but we appreciate your
6 question.

7 **CHAIRMAN FLEMING:** Especially in weather like
8 we've been having lately, it's a big concern, I
9 know, for all of us.

10 **MS. HEIGEL:** We have suspended all
11 disconnects.

12 **MR. CARTER:** It is -- just to answer your
13 initial question, it is -- it's a very tough
14 situation to be in. I mean, I get a lot of letters
15 personally sent to me. And it's -- we talked about
16 the rising cost environment a little bit earlier.
17 That, combined with the impact of the economy
18 leaves a pretty tough -- I mean, it's just almost
19 opposing factors. You're losing on one end, you're
20 losing on the other end, and, you know, the answer
21 to your question is yes, it is tougher on a
22 customer because the way you're calculating this
23 amount is based on your most recent usage and if
24 your most recent usage is based on the rising cost
25 environment, then that calculation is going to

1 present a larger number.

2 So, but we just have to be very prudent in the
3 way that we look at these situations, and deliver
4 as many options as feasible to our customers. And
5 I have seen some very creative methods given to
6 customers to help them avoid having to do something
7 drastic in order to make their utility payments.
8 And so we are being -- I think we're being
9 extremely flexible in the way that we look at the
10 guidelines we operate, without setting a brand-new
11 precedent on our operation. I think we're being
12 very flexible in the way we are looking at these
13 and trying to work with the customers where they
14 are, which incorporates this current economic
15 environment, to make sure that they're able to
16 avoid the ultimate or the worst situation, which is
17 a disconnect.

18 **CHAIRMAN FLEMING:** Let me just ask, with the 5
19 percent increase in disconnects, are you having to
20 cut back on O&M, just operation and maintenance, to
21 make up for that difference, or are you still
22 maintaining the standards, the high standards of
23 operation?

24 **MR. CARTER:** We've -- as you've probably read,
25 we have frozen salaries at the company, which

1 impacts the majority of all of the salaried
2 employees, excluding the union folks. But we are
3 not doing anything that would detrimentally impact
4 our system operations. I mean, we thought that was
5 a step that needed to be taken in terms of freezing
6 the salaries, and we continue to look at our
7 operational costs on a regular basis, to see where
8 we may be able to cut back, if you will, on
9 spending. So we're looking very heavily at travel,
10 and we are very restrictive on areas of travel,
11 entertainment, et cetera. But from a reliability
12 standpoint, we know that keeping that power flowing
13 and making sure that our system is operating
14 appropriately, that's just the core of our business
15 and you know, we wouldn't be looking to do anything
16 that would cause any issues with our operations,
17 with our system.

18 **CHAIRMAN FLEMING:** Well I appreciate your
19 efforts to deal with these issues in a realistic
20 yet compassionate way. We'll look forward to what
21 you do in the future in this area.

22 **MR. CARTER:** Appreciate it.

23 **CHAIRMAN FLEMING:** And I was interested in the
24 regional nuclear, as well, but I believe that's
25 been well-covered, and it's an interesting concept

1 and we look forward to hearing more about it. And
2 congratulations to both of you in your new
3 endeavors, and I appreciate very much your being
4 here today to talk to us about these issues.

5 **MS. RUFF:** Thank you.

6 **MR. CARTER:** Thank you.

7 **MS. HEIGEL:** Thank you, Madam Chairman.

8 **CHAIRMAN FLEMING:** Uh-huh, thank you.

9 **MS. HEIGEL:** Appreciate it.

10 **CHAIRMAN FLEMING:** This meeting is now
11 adjourned.

12 [WHEREUPON, at 11:57 a.m., the
13 proceedings in the above-entitled matter
14 were concluded.]

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